

ANDOVER VENTURES INC.
(A Development Stage Company)

Consolidated Financial Statements
June 30, 2004
(Unaudited)

Notice to Reader

The accompanying unaudited interim financial statements of Andover Ventures Inc. for the period ended June 30, 2004 have been prepared by management and approved by the Audit Committee and the Board of Directors of the Company. These statements have not been reviewed by the Company's independent auditors.

DATED the 17th day of August 2004.

"Frank Underhill"

Frank Underhill
Chief Executive Officer

"Walter Brenner"

Walter Brenner
Chief Financial Officer

ANDOVER VENTURES INC.

(A Development Stage Company)

Balance Sheets

(In Canadian Dollars)

(Unaudited)

	June 30, 2004	March 31, 2004
ASSETS		
Current Assets		
Cash and equivalents	\$ 273,874	\$ 370,384
Accounts receivable	-	2,309
Marketable securities	47,085	48,278
Total Assets	\$ 320,959	\$ 420,971
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Accounts payable and accrued liabilities	\$ 5,048	\$ 2,455
Total Current Liabilities	5,048	2,455
Shareholder's Equity		
Capital Stock (Note 4)		
Authorized: 200,000,000 common shares without par value; 50,000 Class A preferred shares without par value; and 50,000 Class B preferred shares without par value		
Issued and fully paid: 3,750,000 common shares	590,000	590,000
Deficit, accumulated during the development stage	(274,089)	(171,484)
Total Shareholders' Equity	315,911	418,516
Total Liabilities and Shareholders' Equity	\$ 320,959	\$ 420,971

Approved by the Directors:

"Frank R. Underhill"

Frank R. Underhill, *Chief Executive Officer and Director*

"Walter Brenner"

Walter Brenner, *Chief Financial Officer and Director*

ANDOVER VENTURES INC.

(A Development Stage Company)

Statements of Income

(In Canadian Dollars)

(Unaudited)

	Three Months Period Ended June 30,	
	2004	2003
INTEREST AND OTHER INCOME	\$ <u>247</u>	\$ <u>588</u>
GENERAL AND ADMINISTRATIVE EXPENSES		
Interest and bank charges	92	10
Consulting fees	86,539	-
Professional fees	2,920	1,000
Office expenses	3,757	-
Telephone	907	-
Travel and promotion	8,614	-
Transfer agent and filing fees	<u>23</u>	<u>1,068</u>
	<u>102,852</u>	<u>2,078</u>
NET LOSS FOR THE PERIOD	<u>(102,605)</u>	<u>(1,490)</u>
BASIC AND DILUTED LOSS PER SHARE	\$ (0.03)	\$ (0.00)
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING	<u>3,750,000</u>	<u>1,250,000</u>

ANDOVER VENTURES INC.
 (A Development Stage Company)
Statement of Retained Earnings (Deficit)
 (In Canadian Dollars)
 (Unaudited)

	Three Months Period Ended June 30,	
	2004	2003
RETAINED EARNINGS (DEFICIT), BEGINNING OF PERIOD	\$ (171,484)	\$ (1,652)
NET PROFIT (LOSS) FOR THE PERIOD	<u>(102,605)</u>	<u>(1,490)</u>
RETAINED EARNINGS (DEFICIT), END OF PERIOD	<u>\$ (274,089)</u>	<u>\$ (3,142)</u>

ANDOVER VENTURES INC.

(A Development Stage Company)

Statement of Cash Flows

(In Canadian Dollars)

(Unaudited)

	Three Months Period Ended June 30,	
	2004	2003
CASH PROVIDED BY (USED FOR)		
OPERATING ACTIVITIES		
Loss for the period	\$ (102,605)	\$ (1,490)
Non-Cash Items:		
Changes in non-cash working capital items:		
Increase in accounts receivable	2,309	-
Increase in accounts payable	2,593	222
	<u>(97,703)</u>	<u>(1,268)</u>
INVESTING ACTIVITIES		
Deferred charges – sponsorship fee	-	(15,000)
Marketable securities	1,193	-
	<u>1,193</u>	<u>(15,000)</u>
CASH AND CASH EQUIVALENT), DURING THE YEAR	(96,510)	(16,268)
CASH AND CASH EQUIVALENTS, BEGINNING OF THE YEAR	<u>370,384</u>	<u>149,993</u>
CASH AND CASH EQUIVALENTS, END OF THE PERIOD	<u>273,874</u>	<u>133,725</u>

ANDOVER VENTURES INC.

(A Development Stage Company)

Notes to the Financial Statements

For the three months period ended June 30, 2004

(In Canadian Dollars)

(Unaudited)

NOTE 1. BUSINESS OF THE COMPANY

Andover Ventures Inc. ("The Company") is incorporated under the Laws of British Columbia, Canada on February 12, 2003, and is the date of inception of the Company.

NOTE 2. NATURE OF OPERATIONS

The Company is a Capital Pool Company pursuant to TSX Venture Exchange policy and currently has no business operations. Accordingly, the deficit has been accumulated during the development stage.

NOTE 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

These financial statements have been prepared in accordance with Canadian Generally Accepted Accounting Principles ("Canadian GAAP")

General and Administration Expenses

General and Administration Expenses are written off to operations as incurred.

Use of estimates

The preparation of financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

Concentration of credit risk

Financial instruments that potentially subject the Company to a significant concentration of credit risk consist primarily of cash and cash equivalents that are not collateralized. The Company limits its exposure to credit loss by placing its cash and cash equivalents with high credit quality financial institutions.

Financial instruments

The Company's financial instruments consist of cash and cash equivalents, marketable securities, GST receivable and accounts payable and accrued. It is management's opinion that the Company is not exposed to significant interest, currency or credit risks arising from these financial instruments. The fair values of these financial instruments approximate their carrying values, except for marketable securities carried at cost of \$47,085.

ANDOVER VENTURES INC.

(A Development Stage Company)

Notes to the Financial Statements

For the three months period ended June 30, 2004

(In Canadian Dollars)

(Unaudited)

NOTE 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Cash and cash equivalents

Cash and cash equivalents consist of cash on deposit and highly liquid short-term interest bearing securities with the maturity at the date of purchase of three months or less.

Stock-based compensation

The Company has adopted the new recommendations of CICA Handbook Section 3870, "Stock-based compensation and other stock-based payments", effective February 12, 2003. This Section establishes accounting standards for the recognition, measurement and disclosure of stock-based compensation and other stock-based payments. This Section sets out a fair value based method of accounting and is required for certain stock-based transactions and applied to awards granted on or after January 1, 2002. The Company, as permitted by Handbook Section 3870, has elected to account for all stock options granted to non-employees and employees by applying the fair value based method of accounting. The adoption of this accounting policy has no effect in these financial statements

NOTE 4. CAPITAL STOCK

(a) Authorized: 200,000,000 common shares without par value; 50,000,000 Class A preferred shares without par value; and 50,000,000 Class B preferred shares without par value.

(b) Shares issued during the period:

	Number of Shares	Consideration \$
Balance March 31, 2004 and June 30, 2004	3,750,000	590,000

(c) Escrow shares

There are 1,000,000 common shares included in the above issued common shares, which are held in escrow subject to release upon terms of escrow agreements and approvals of regulatory authorities.

(d) Special rights and restrictions of shares:

(i) Common shares: The holders of the common shares are entitled:

- To vote at all meetings of members, except meetings at which only holders of a specified class of shares are entitled to vote;
- To receive any dividend by the Company on the common shares; and
- Subject to the rights, privileges, restrictions and conditions attaching to any other class of shares of the Company, to receive the remaining property of the Company upon dissolution, liquidation or winding-up of the Company.

ANDOVER VENTURES INC.

(A Development Stage Company)

Notes to the Financial Statements

For the three months period ended June 30, 2004

(In Canadian Dollars)

(Unaudited-Prepared by Management)

NOTE 4. CAPITAL STOCK (Cont'd)

(d) Special rights and restrictions of shares: (continued)

(ii) Class A preferred shares:

- The holders of Class A preferred shares, in the discretion of the directors of the Company, shall be entitled in any year, out of the profits or surplus available for dividends, to receive non-cumulative dividends in such amount as may be determined by the directors in any year, but not exceeding twelve percent (12%) per annum of the redemption price for such shares, payable on such terms and at such time as the same may be declared by the directors of the Company in their discretion.
- The term "redemption price" for any Class A preferred share shall mean: (1) Where such share was issued for money, the amount for which such share was issued; or (2) Where such share was issued in whole or in part for a consideration other than money, then the amount in money (if any) paid for the issue of such share, plus an amount equal to the fair market value of such other consideration received; such fair market value shall be calculated as at the date of issue of such share and shall be determined in accordance with recognized standards of valuation.
- In the event of the liquidation, dissolution or winding-up of the Company, whether voluntary or involuntary, the holders of the Class A preferred shares shall receive, before any distribution of the assets of the Company is made among the holders of the Class B preferred shares and common shares of the Company, an amount equal to the redemption price for such shares plus an amount equal to any dividends declared thereon but unpaid.
- Each holder of one or more Class A preferred shares shall have the right, in his discretion and at all times, to demand that the Company redeem all or any of the said shares registered in the name of the holder in the books of the Company
- The Company may, upon giving notice as hereinafter provided, redeem, subject to the provisions of the Company Act (British Columbia), the whole or any part of the Class A preferred shares on payment for each share to be redeemed of an amount equal to the redemption price for such share plus all dividends declared on such share but unpaid.
- The Company shall have the right, at its option, at any option, at any time and from time to time, to purchase for cancellation the whole or any part of the Class A preferred shares outstanding by invitation for tenders addressed to all holders of record of the Class A preferred shares outstanding.

(iii) Class B preferred shares:

- The holders of Class B preferred shares, in the discretion of the directors of the Company, shall be entitled in any year, out of the profits or surplus available for dividends, to receive non-cumulative dividends in such amount as may be determined by the directors in any year, but not exceeding thirteen percent (13%) per annum of the redemption price for such shares, payable on such terms and at such time as the same may be declared by the directors of the Company in their discretion.

ANDOVER VENTURES INC.

(A Development Stage Company)

Notes to the Financial Statements

For the three months period ended June 30, 2004

(In Canadian Dollars)

(Unaudited-Prepared by Management)

NOTE 4. CAPITAL STOCK (Cont'd)

(d) Special rights and restrictions of shares: (continued)

(iii) Class B preferred shares:

- The term "redemption price" for any Class B preferred share shall mean: (1) Where such share was issued for money, the amount for which such share was issued; or (2) Where such share was issued in whole or in part for a consideration other than money, then the amount in money (if any) paid for the issue of such share, plus an amount equal to the fair market value of such other consideration received; such fair market value shall be calculated as at the date of issue of such share and shall be determined in accordance with recognized standards of valuation.
- In the event of the liquidation, dissolution or winding-up of the Company, whether voluntary or involuntary, the holders of the Class B preferred shares shall rank junior to the Class A preferred shares but the holders thereof shall receive, before any distribution of the assets of the Company is made among the holders of the common shares of the Company, an amount equal to the redemption price for such shares plus an amount equal to any dividends declared thereon but unpaid.

NOTE 5. STOCK OPTIONS

Incentive stock options

Dated for reference March 31, 2003, the Company granted 250,000 shares of incentive stock options to Directors (75,000 shares) and Executive Officers (175,000 shares). The exercise price is \$0.20 per share. The option holders have the right to exercise the options granted with respect to all or any portion of the optioned shares on or before five years after receipt by the company of a final prospectus qualifying the common shares of the company.

Agent's options

The Company has agreed to grant Canaccord Capital Corp. ("the Agent") the Agent's option entitling the Agent to purchase 10% of the number of shares sold hereunder, namely 125,000 shares in the event of the minimum subscription and up to 250,000 shares in the event of the maximum subscription, at any time up to the close of business 18 months from the day the Company's common shares are listed for trading on the TSX Venture Exchange ("TSX"), at a price of \$0.20 per share.